

# 1973 Annual Report to Investors





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## 1974 is IU's 50th Year

The company was founded as International Utilities Corporation on October 8, 1924, and during its first 35 years grew around a nucleus of electric, gas and water utilities in North and South America and Europe.

In the past 15 years, IU has been shaped into a balanced operating company serving worldwide energy, transportation/distribution, and environmental markets. The company was renamed IU International Corporation in April 1973 to better describe its growth beyond the original utilities base.

Today, IU is a \$1.5 billion growth company with more than 40,000 employees and approximately 30,000 shareholders.

## Annual Meeting

The annual meeting of shareholders will be held at 11:00 a.m., Eastern Daylight Time, Wednesday, May 1, 1974, at 100 West Tenth Street, in Wilmington, Delaware. A formal notice, together with a proxy statement and form of proxy, will be mailed to shareholders in advance of the annual meeting.

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## Financial Highlights

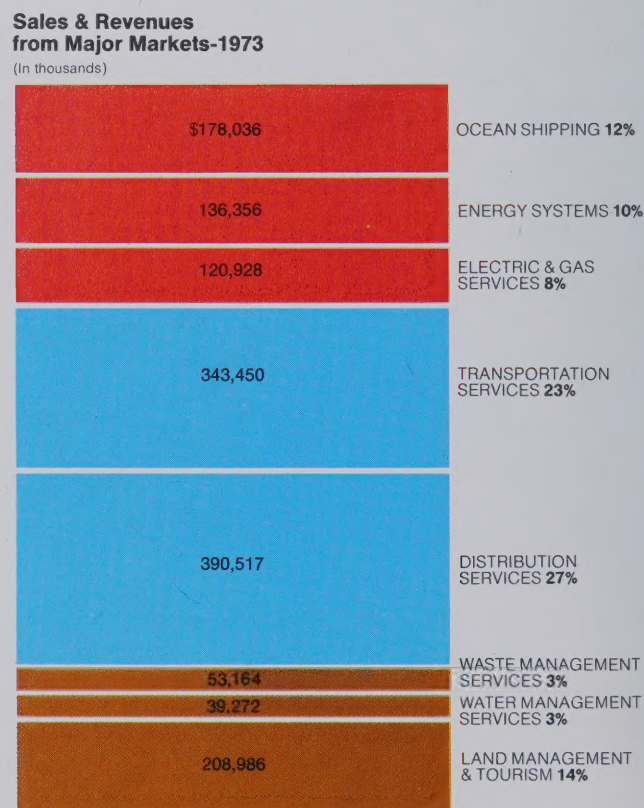
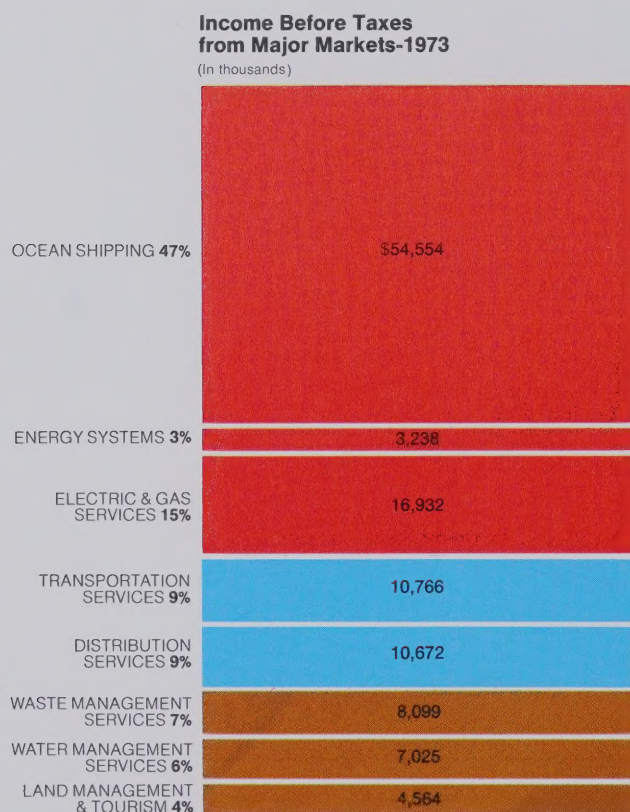
(In thousands, except per share data)

	1973	1972*	% Change
Sales and Revenues	\$ 1,548,559	\$ 1,234,130	25%
Income from Operations	\$ 73,857	\$ 59,992	23%
Net Income	\$ 73,857	\$ 60,676 <sup>(1)</sup>	22%
Earnings Per Share—Operations	\$ 2.31	\$ 1.88	23%
Earnings Per Share	\$ 2.31	\$ 1.90 <sup>(2)</sup>	22%
Dividends Paid Per Common Share	\$ .75	\$ .725	3%
Shareholders' Equity Per Common and Common Equivalent Share	\$ 14.38	\$ 13.07	10%
Average Common and Common Equivalent Shares	31,186	30,646	2%

\*Figures for 1972 have been restated to reflect the acquisition of Codesco Inc. on a pooling of interests basis.

(1) Including extraordinary item of \$684,000.

(2) Including extraordinary item of 2 cents per share.



**Energy Markets**  
Income 65%  
Revenues 30%

**Transportation/Distribution Markets**  
Income 18%  
Revenues 50%

**Environmental Markets**  
Income 17%  
Revenues 20%

## To Our Shareholders:

IU International Corporation had another good year in 1973, setting new records in earnings per share, net income and revenues—a fine introduction for 1974, our 50th Anniversary Year.

Earnings per share from operations were \$2.31, a 23 per cent improvement over \$1.88 reported in 1972. Net income from operations was \$73.9 million, compared with \$60.0 million in 1972. Operating earnings per share have risen without interruption over the period 1969-73 at an average compound annual rate of 26 per cent. This earnings growth has for the most part been generated internally. Over the past 10 years, our growth rate has been 15 per cent.

Sales and revenues totaled \$1.55 billion, up 25 per cent from \$1.23 billion in 1972. After taking 47 years to attain the billion-dollar mark in 1971, IU has now added another half-billion in only two years.

Dividends of 75 cents per common share were paid in 1973, up from 72.5 cents in the previous year. This was the 29th consecutive year of continuous growth in per-share payout.

The charts on the opposite page show the proportion of IU's total revenues and pre-tax income contribution from the three markets served—Energy, Transportation/Distribution, and Environmental. Each major market increased its income contribution during 1973.

**Energy Markets** provided 65 per cent of IU's income contribution and 30 per cent of sales and revenues. The income contribution increased 35 per cent to \$74.7 million, while sales and revenues rose 22 per cent to \$435 million.

Gotaas-Larsen's *shipping operations* generated an income contribution of \$54.6 million, compared with \$31.6 million a year earlier.

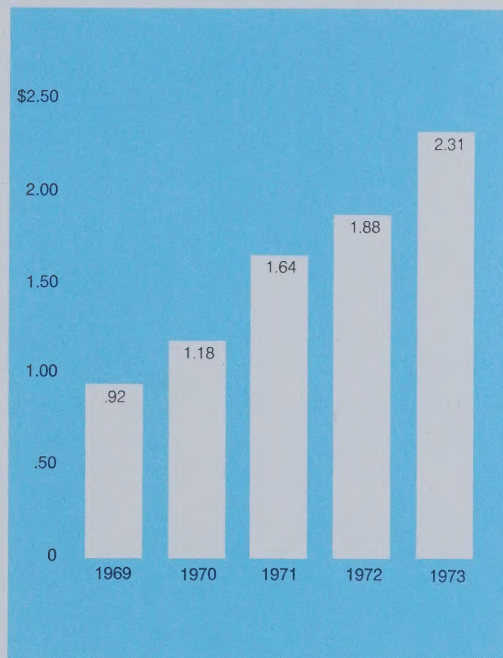
Part of this 1973 improvement was the result of an increase in capacity of a half-million tons, and the balance came from improved rates. Most of our fleet operates under term charters, but during 1973 a small part of our tonnage benefited from the high short-term or "spot" market.

As one of the world's few publicly-owned independent fleets, Gotaas-Larsen has a history of producing stable, consistent earnings. Partly, this has been accomplished by proper timing in securing a balanced program of medium- and long-term charters. The fleet is already 88 per cent chartered for 1974 and 68 per cent for 1975. Diversification has also helped. Thus, in addition to the well-publicized crude oil tankers, we operate product carriers, dry cargo bulk carriers, refrigerated ships for perishables, and oil drilling rigs. A most important development toward ensuring long-term earnings stability was the signing in 1973 of 20-year charters for three liquefied natural gas (LNG) carriers, with revenues estimated at almost \$1 billion over the life of the contracts, which begin in 1976.

Gotaas-Larsen will add little capacity during 1974, so it is unlikely to repeat 1973's rapid growth, but it should equal

**Earnings Per Share-Operations**

in Dollars



last year's record earnings. Although the "spot" market for tankers has been down, term charters have been fixed during the first quarter of 1974 at rates above the levels prevailing in most of our existing charters. The developments in the Middle East have had minimal effect on Gotaas-Larsen's performance.

After a strong showing in 1972, the *Energy Systems* group's income contribution dropped from \$5.6 million to \$3.2 million as a result of cost-price pressures and deferred deliveries.

*Electric and Gas Services* of Canadian Utilities Limited had higher revenues but a slightly lower income contribution of \$16.9 million, chiefly due to start-up costs of a new generating station in northern Alberta.

**Transportation/Distribution Markets** provided 18 per cent of IU's income contribution in 1973 and 50 per cent of sales and revenues. Income contribution was \$21.4 million, up only slightly from \$21.1 million. Sales and revenues totaled \$734 million, up 25 per cent from \$585 million a year earlier.

*Transportation Services'* income contribution declined to \$10.8 million from \$12.1 in 1972. Ryder Truck Lines produced substantially higher earnings, reflecting the efficiencies of its established management system as well as the strong economy in much of its service area throughout the south-eastern U.S. Pacific Intermountain Express, however, was still affected by programmed expenditures aimed at improving customer service and increasing market share. P-I-E will benefit in 1974 as these programs are completed.

*Distribution Services* had an income contribution of \$10.7 million, up 18 per cent from 1972. This strong showing reflected continuing high demand, increased market penetration, and cost-conscious management within U.S. Government price constraints. Further substantial gains are expected in 1974.

**Environmental Markets** provided 17 per cent of IU's income contribution and 20 per cent of IU's sales and revenues. Income contribution was \$19.7 million, up 13 per cent from \$17.6 in 1972. Sales and revenues gained 31 per cent to \$301 million.

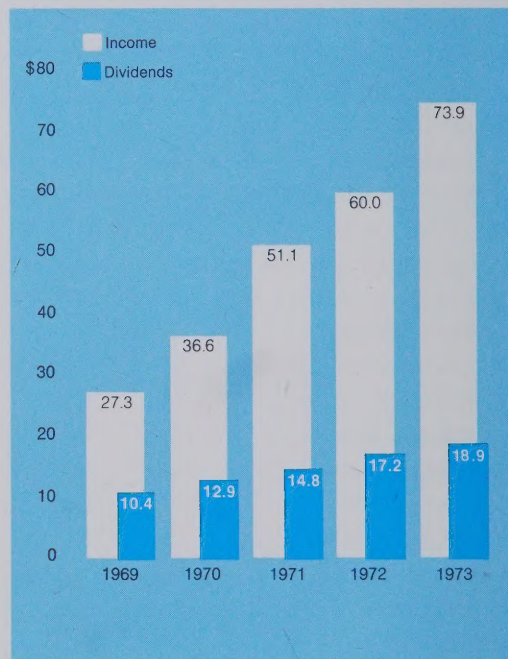
*Waste Management Services* had another good year, with income contribution rising 30 per cent to \$8.1 million.

*Water Management Services* showed a 7 per cent increase in income contribution to \$7.0 million.

*Land Management and Tourism* had a 4 per cent decline in income contribution to \$4.6 million.

**Our 50th Anniversary:** IU was founded in October, 1924, and over the next 15 years grew rapidly into a large utility holding company. Then, responding to changing regulatory and economic climates, the utility properties outside Canada were sold, the capitalization simplified, and all parent company debt eliminated. This phase was completed in 1944 and set the stage for 15 years of uninterrupted growth with IU as the parent of gas and electric utility properties in the Province of Alberta, Canada.

**Income-Operations  
and Common Dividends**  
in Millions of Dollars



In September, 1959, nearing its 35th anniversary, IU decided to diversify. Each move was made carefully, with close attention to balance. By 1969, our 45th anniversary, after 10 years of successful acquisitions, the emphasis shifted to consolidation and internal growth. The 1960s were for IU a decade of extraordinary growth, with income increasing more than six-fold and assets more than eight-fold. But in recent years of growth from within, the record has been still better. Even during the recession of the early 1970s, IU's growth did not falter.

The company throughout its 50-year history has successfully anticipated change and benefited from it. We are the product of our past experiences, and our history does provide insight into the company's future.

Thus, our tradition of no parent company public debt stood us in good stead during the 1970 credit crunch. Paying a cash dividend every year since 1924 and an increasing dividend in every year since 1944 taught us cash discipline, a necessary art during 1973 when the prime interest rate was at an all-time high. A management that has for 15 years operated a successful acquisition and divestiture program plans for the future with ample alternatives and leaves little to chance.

Whether he looks at the five-year, ten-year, thirty-year, or fifty-year record of earnings growth, no manager joins IU without being acutely aware that he must produce comparable results.

IU has enjoyed steady growth without unpleasant surprises or sudden "extraordinary" losses. Changes have come through evolution but not revolution. Despite constant changes in a period embracing several wars and economic upheavals, IU has had only two chief executives in 30 years. A smooth transition was ensured by the thorough indoctrination in the IU success philosophy I received before being elected chief executive seven years ago. J.G. Rubenstein already had a strong record of success in the operating subsidiaries and at corporate headquarters when he succeeded me as president last May.

IU's management is certainly not dependent upon any two or any twenty men. It is a broad diverse group drawn from many professions and many countries that is welded together by a common purpose and supported by all 40,000 employees, many of whom are shareholders. It will not be easy to better the record earnings of 1973, but the momentum of history is so strong that in 1974, our 50th Anniversary Year, these men and women are confident that all previous records will be surpassed.

Sincerely,

*John M. Seabrook*

Chairman and Chief Executive Officer



*Chairman and Chief Executive Officer John M. Seabrook (right) and J. G. Rubenstein, who was named president in May 1973*

February 28, 1974



***IU energy markets include ocean shipping; energy systems; and electric and gas services. In 1973, these units produced 65 per cent of pre-tax income and 30 per cent of revenues.***

Gotaas-Larsen rounded out its tenth year as IU's *Ocean Shipping* subsidiary with another record-breaking profit performance. The company has earned a profit in every one of its 28 years. In 23 of those years, earnings exceeded those of the previous year.

Income contribution for 1973 was \$54.6 million, up from the previous record of \$31.6 million in 1972. Revenues were \$178.0 million, compared with \$123.9 million in the previous year. These figures do not include cruise ship operations, shown under Land Management and Tourism.

A major reason for the earnings growth was the increase of about 460,000 deadweight tons (dwt) in operation throughout the year. Two 216,000 dwt very large crude carriers (VLCCs) were delivered in the fourth quarter of 1972 and a third joined the fleet in March 1973.

In addition, due to a generally strong tanker market, ships up for re-charter during the year were fixed at more profitable rates and some vessels were placed briefly in the spot market between longer charters.

The company continues its basic policy of arranging medium- and long-term charters with staggered maturities to avoid excessive exposure to market conditions in any one year. To date, 88 per cent of Gotaas-Larsen's tonnage has been fixed for 1974, 68 per cent for 1975, and 57 per cent for 1976.

On November 5, the company suffered the loss of a ship, the first in its 28 years of operation, when the empty 216,000 dwt tanker, *Golar Patricia*, sank near the Canary Islands. Regrettably, one life was lost. However, no other serious injuries were sustained, reflecting favorably on the discipline



*Gotaas-Larsen's first semi-submersible oil drilling rig is in operation in the North Sea.*

### OCEAN SHIPPING

Millions	1973	1972	1971	1970	1969
<b>Revenues</b>	\$178.0	\$123.9	\$116.1	\$ 81.1	\$ 43.0
<b>Income Contribution</b>	\$ 54.6	\$ 31.6	\$ 28.7	\$ 23.3	\$ 6.8

and professional competence of the master, officers, and crew. There was no oil spill or other damage to the environment. Financial implications of the loss of the ship are explained in detail in the financial section of this report.

The highlight of the year in shipping was the signing of 20-year charters, beginning early in 1976, for three liquefied natural gas (LNG) carriers, now under construction in Norway, to transport LNG from Abu Dhabi, in the Persian Gulf, to Japan.

To keep pace with anticipated worldwide energy needs, Gotaas-Larsen in 1973 ordered three additional LNG carriers, two in Japan and one in West Germany. A total of six LNG

ships, all in the 125,000 cubic meter class, are on order for 1975-77 delivery.

During the year, Gotaas-Larsen revised the capacity of its previously-ordered ultra large crude carrier (ULCC), which will be delivered in 1976, from 357,000 dwt to 410,000 dwt, and ordered two additional sister ships for delivery in 1977-78. The increase in tonnage will provide more cargo capacity with no increase in draft, enabling the ships to serve a number of major oil ports in the Middle East, Europe, Japan and Canada.

Gotaas-Larsen is also playing a part in the discovery of new petroleum sources. A semi-submersible offshore drilling rig went into operation in the Norwegian sector of the North Sea in the first quarter of 1974 under contract to an international oil company. The second such unit is scheduled for delivery in June 1974 and is already under contract for two years. Two additional rigs were ordered for 1976 delivery.

The world's refining facilities have generally been moving closer to crude petroleum sources. This necessitates longer-haul transportation for the refined products to the areas of demand and calls for smaller and more specialized ships that can serve ports that larger ships cannot now enter.

To participate in this growing market, Gotaas-Larsen has ordered three 31,500 dwt product carriers for 1974-76 delivery. A similar vessel went into service in January 1974. These specialized ships are designed to carry simultaneously up to 34 different refined petroleum products in segregated tanks.

Gotaas-Larsen's sixth 216,000 dwt VLCC, Golar Kanto, was delivered and chartered in February 1974, replacing tonnage lost in the sinking of the Golar Patricia. The company is now operating a fleet of 56 cargo ships totaling 4.3 million dwt. Although Gotaas-Larsen will not add substantially to its tonnage in 1974, it has on order 12 ships totaling 1.7 million dwt to be delivered in 1974-78. Commitments for these vessels amount to over \$750 million, reflecting management's strong confidence in the world shipping market.



IU manufactures 35-ton ball valves for the 37,000-mile Russian natural gas pipeline.

## ENERGY SYSTEMS

Millions	1973	1972	1971	1970	1969
<b>Revenues</b>	\$136.4	\$118.1	\$102.0	\$103.2	\$100.7
<b>Income Contribution</b>	\$ 3.2	\$ 5.6	\$ 1.6	\$ .6	\$ (.9)

Income contribution of IU's *Energy Systems* group was \$3.2 million in 1973, down from \$5.6 million in 1972. Sales were up 15 per cent to \$136.4 million, compared with \$118.1 million a year earlier.

The principal cause of lower earnings was the cost-price squeeze resulting from increased materials and labor costs and U.S. government price constraints. Other contributing factors were materials shortages, a series of strikes at an Italian subsidiary, and customer-deferred delivery dates for nuclear components.

The group's subsidiaries manufacture valves, piping, flow control systems, compressors, heat exchangers, and other components used in the petroleum, chemical, and power industries.

Increased demand for all energy-related products brought the group's backlog at the end of 1973 to a record \$159 million, compared with \$84 million a year earlier. This backlog includes a \$30 million contract to supply piping assemblies for four nuclear power plants in North Carolina.

A \$5.5 million contract to supply ball valves for the 37,000-mile Russian natural gas pipeline network supplements an earlier \$25 million valve contract.

#### ELECTRIC AND GAS SERVICES

Millions	1973	1972	1971	1970	1969
<b>Revenues</b>	\$120.9	\$114.3	\$101.1	\$ 86.8	\$ 75.5
<b>Income Contribution</b>	\$ 16.9	\$ 18.3	\$ 18.3	\$ 14.0	\$ 13.6

Revenues from IU's *Electric and Gas Services* subsidiary, Canadian Utilities Limited, rose 6 per cent in 1973 to \$120.9 million, compared with \$114.3 million in the previous year.

Income contribution was off 7 per cent to \$16.9 million from \$18.3 million, due primarily to start-up expenses of a new \$38 million generating station, as well as continued inflationary pressure on operating costs. The new station, located at Grand Cache, went into operation in February 1973, supplying a portion of the Province of Alberta's electric power grid. This coal-burning plant can generate 150,000 kilowatts of power.

Construction work continues on another CU electric generating installation at Battle River. This new facility, the fourth unit at that site, is scheduled for operation by late 1975. It will raise the station's overall capacity to 362,000 kilowatts.

To supply future needs of the growing petroleum-based economy of Alberta, CU had capital expenditures in 1973 of \$39 million. An outlay of \$70 million is projected for 1974.

Included in 1974 capital projects will be construction of a 170-mile, \$8.8 million electric power line from the northern Alberta grid to the Athabasca Oil Sands area, where an estimated 600 billion barrels of oil make up one of the largest known petroleum deposits in the Western World. Work is underway on the second oil recovery plant in that area.

CU's natural gas revenues rose 4 per cent to \$82.0 million. Approximately 335,000 residents in 253 communities are natural gas users, and demand is expected to parallel expansion of Alberta's economy and population. Natural gas volume was 243 billion cubic feet, up 4 per cent over 1972.

Revenues from electric services rose 13 per cent to \$38.3 million, with electric energy sales totaling 1.8 billion kilowatt hours, a 17 per cent yearly gain. This gain resulted principally from increased industrial activity in Alberta. Electric power is supplied to 364 communities and growth of this service is expected to follow general economic uptrends.



Canadian Utilities drills for natural gas in the growing, energy-rich Province of Alberta.



## Transportation/Distribution Markets

***IU transportation and distribution services markets in 1973 produced 18 per cent of pre-tax income and 50 per cent of revenues.***

Ryder Truck Lines continued its strong performance with another highly profitable year in 1973, but its income contribution was not sufficient to offset poor results caused by adversities at Pacific Intermountain Express.

*Transportation Services* produced an overall income contribution of \$10.8 million, a decline of 11 per cent from \$12.1 million a year earlier. Revenues rose 14 per cent to \$343.5 million, up from \$300.9 million in 1972.

Ryder's continuing growth in earnings and revenues reflected both the superior service it provided and very strong economic conditions in one of its principal service areas, the southeastern U.S.

During the year, Ryder added 14 new terminals to its system, bringing the total to 159. In 1974, Ryder will add 10 more terminals. The company also augmented its management information system by adding a computerized freight movement plan.

P-I-E's income contribution was reduced by further expenditures on improvements in services to shippers, including the addition of 10 new terminals in 1973. With further management changes, the bringing on line of a computer-based management information system, development of system-wide training programs, and installation of tighter cost controls, P-I-E is now in position to benefit from higher profit margins on increased revenues. P-I-E will add 12 new terminals in 1974, for a system total of 109.

During the fourth quarter of 1973 both companies had to contend with rising fuel costs. Newly mandated highway speed limits also required certain adjustments in operating procedures. However, fuel supplies have been fully adequate to maintain schedules and regular standards of service to shippers.

As scarcities have developed throughout various sectors of the U.S. economy in late 1973 and early 1974, product shortages have tended to increase demand for trucking services.



*Pacific Intermountain Express driver Wilbur Moore was named "Driver of the Year" by the American Trucking Association.*

### TRANSPORTATION SERVICES

Millions	1973	1972	1971	1970	1969
<b>Revenues</b>	\$343.5	\$300.9	\$265.6	\$239.0	\$228.6
<b>Income Contribution</b>	\$ 10.8	\$ 12.1	\$ 13.2	\$ 7.3	\$ 5.5

This seeming paradox is explained by the requirement for shippers to dispatch less-than-carload lots of their products to customers on an as-needed basis, rather than consolidating carload lots for planned shipments. Trucking companies are able to utilize labor more effectively as more tonnage flows through an existing system, generating higher utilization of facilities.

Under normal conditions in the past, the U.S. Interstate Commerce Commission has responded rapidly to cost increases in trucking by granting corresponding rate increases. However, large short-term cost swings are new to both the ICC and the truck lines. Accordingly, there were some time lags during 1973 in the Commission's response to higher costs of both labor and supplies. P-I-E provides a substantial portion of its transcontinental services under tariffs of the Rocky Mountain Tariff Bureau. Until late 1973, this bureau lagged behind others in the amount and timeliness of increases.

In February 1974 the ICC took emergency action to grant fuel surcharges, reflecting recognition of the industry's needs for prompt relief through rate increases. Accordingly, the outlook for 1974 in transportation services, especially in the latter months, is favorable.

Civil Aeronautics Board hearings on the proposed merger of Airborne Freight Corp. into IU have been held, and a decision is expected later this year. Earlier, Airborne's shareholders overwhelmingly approved the merger. The basis of exchange under the agreement is 0.6 share of IU common stock for each share of Airborne.

Airborne, second largest company in the air freight forwarding industry with 1973 revenues of more than \$98 million, is headquartered in Seattle, Washington, and has more than 70 terminals throughout the world.

The air freight forwarding industry is time and service intensive. Its revenues have grown at a 23 per cent compound annual rate over the past decade. IU's trucking experience with Ryder, acquired in 1965, and P-I-E, acquired in 1971, is highly relevant to the pickup, delivery, and ground handling aspects of air freight.

In August, IU and Global Van Lines, Inc., suspended negotiations on a plan to have IU acquire Global, a mover of household goods in the U.S. and abroad.

#### DISTRIBUTION SERVICES

Millions	1973	1972	1971	1970	1969
<b>Revenues</b>	\$390.5	\$283.9	\$255.4	\$234.7	\$209.9
<b>Income Contribution</b>	\$ 10.7	\$ 9.0	\$ 7.2	\$ 5.5	\$ 5.9

Through both internal growth and acquisition, IU's *Distribution Services* group expanded substantially in 1973. Income contribution rose 18 per cent to \$10.7 million, compared with \$9.0 million the previous year. Sales rose to a record \$390.5 million, an increase of 38 per cent from \$283.9 million in 1972.

The paper distribution segment contributed substantially to the group's performance despite the adverse effect of the paper shortage, which necessitated an allocation system by most manufacturers.

Several small paper products distribution companies were



*Thousands of tons of paper, food and related products are delivered each year through IU's 18-state distribution system.*

acquired during 1972-73, expanding IU's network to 18 states, mostly in the Southeast and Middle West.

Unijax, IU's paper distribution company, while originally known primarily as a paper merchant, is structured to handle any dry, non-perishable products. Now only 58 per cent of its sales are in industrial and fine papers, while the remainder are in supplies and equipment for the graphic arts industry, in chemicals, plastics, janitorial and packaging supplies.

The dairy products segment of IU's distribution system is exploring ways of better utilizing its extensive facilities through expansion into the distribution of non-dairy products that are sold in retail stores. Now in the test market stage are bottled water, prepared salads, and other food items.

To help implement this approach, Farmbest Inc., headquartered in Jacksonville, Florida, has been re-organized into two companies: Farmbest Foods, which will handle products that are sold in retail stores; and Farmbest Food Service, which will distribute products to customers who prepare meals for the away-from-home-market — hotels, restaurants, schools.

New distribution warehouses are scheduled for completion during 1974 in Miami, Florida; Charlotte, North Carolina; Norfolk, Virginia; Jackson, Mississippi; and Indianapolis, Indiana.

IU entered the industrial supply distribution field with acquisitions of Taylor Engineering Corp., of Detroit, Michigan, and Saunders and Co., of Chicago, Illinois, both distributors of piping, valves, fittings, and plumbing and heating supplies; and Pittsburgh Gage & Supply Co., of Pittsburgh, Pennsylvania, a distributor of general industrial supplies.

Geographical expansion in this industry is based on the premise that a regional marketing concept best meets the needs of the industrial and contracting distribution fields. Growth and profit opportunities are seen in the application of advanced control techniques and a regional approach in an industry generally characterized by fragmented operations and fractionalized product lines.

In December, IU acquired Codesco Inc., a leading dental products distribution firm headquartered in Philadelphia, Pennsylvania. Codesco had sales of \$44 million for the year that ended December 31, 1973. It distributes more than 30,000 dental and health care items from 40 supply centers across the U.S., complementing IU's position as a distributor of dairy, paper, and industrial products. Codesco's dental laboratory division is one of the major producers of dental prosthetic devices.

The addition of Codesco expands IU's service-oriented distribution network into the growing health care products field. Codesco has a strong industry identity and long experience in the field and should benefit from access to IU's advanced systems and financial resources.

Although IU has added industrial and dental products to those already being handled, these are not new businesses but merely extensions of existing distribution services.



*Computerized inventory controls (above) aid management of IU's industrial distribution operations. Distribution of dental products (below) represents IU's entry into the growing health care market.*



## Environmental Markets

***IU environmental markets include waste management services; water management services; and land management and tourism. In 1973, these units produced 17 per cent of pre-tax income and 20 per cent of revenues.***

Continued expansion of metal recovery and slag processing services for steel mills, including substantial overseas growth, paced a 30 per cent increase in income contribution of the *Waste Management Services* group to \$8.1 million in 1973, up from \$6.2 million the previous year. Sales and revenues rose 20 per cent to \$53.2 million, compared with \$44.3 million a year earlier.

In 1973, International Mill Service contracted to provide metal recovery and materials handling services to three additional steel mills in the U.S., bringing the number of such operations nationwide to 24. Increased emphasis on expansion outside the U.S. resulted in five steel mill operations being added in 1973—three in Brazil, one in West Germany, and one in England—to those in Canada, Mexico, and Venezuela. Further international expansion is projected in 1974.

IU is expanding its distribution of lime, limestone, and related products used for pollution control and in the construction, chemical, and metals industries with the opening of a new facility to serve Virginia, Maryland, and the District of Columbia.

IU Conversion Systems, which is still in the developmental stage, was awarded a demonstration contract for the conversion of major pollutants from a coal-burning electric generating plant (fly ash and sulfur oxide sludge) into a

### WASTE MANAGEMENT SERVICES

Millions	1973	1972	1971	1970	1969
<b>Revenues</b>	\$ 53.2	\$ 44.3	\$ 26.7	\$ 22.8	\$ 18.7
<b>Income Contribution</b>	\$ 8.1	\$ 6.2	\$ 4.1	\$ 3.7	\$ 2.5

stable material that can be used for landfill or as a construction aggregate. The growing need to use high sulfur coal as an energy source, while extracting the sulfur from exhaust gases to protect the environment, creates important potential markets for the company's services.

General Waterworks Corp., IU's *Water Management Services* company, increased its 1973 income contribution 7 per cent to \$7.0 million, compared with \$6.6 million a year earlier. Rate increases in a number of service areas were the primary source of the improvement. Applications for 20 additional rate increases filed in 1973 are pending. Revenues rose 8 per cent to \$39.3 million, despite a drop in customer demand due to record-breaking summer rainfalls.

As one of the largest investor-owned water utilities in North America, General Waterworks owns more than 40,000 acres of woodlands and watershed, serving 322,000 customers in 16 states and the Canadian province of New Brunswick.



*Pollutants from electric utility plant smokestacks can be converted by an IU process into stable landfill and construction materials.*

## WATER MANAGEMENT SERVICES

Millions	1973	1972	1971	1970	1969
<b>Revenues</b>	\$ 39.3	\$ 36.3	\$ 33.0	\$ 29.3	\$ 25.7
<b>Income Contribution</b>	\$ 7.0	\$ 6.6	\$ 6.9	\$ 6.5	\$ 5.3

The subsidiary's growth and earnings stability since it merged with IU in 1968 is reflected in its 72 per cent increase in operating revenues and 43 per cent rise in income contribution over those years.

In 1973, the income contribution of *Land Management and Tourism* was \$4.6 million, slightly below \$4.8 million in 1972. Sales and revenues of the group were \$209.0 million, a 39 per cent gain over \$150.2 million in the preceding year.

These figures include IU's share of the earnings of C. Brewer and Co., Ltd., the Hawaiian-based affiliate in which IU holds a 54 per cent interest, together with the cruise ship operations of Gotaas-Larsen. Brewer's earnings, up slightly from 1972, are included on an after-tax basis, but cruise ship operations are shown before taxes.

Brewer benefited significantly in 1973 from higher prices caused by the upswing in world demand for sugar and molasses, the latter being used primarily for feeding livestock. Brewer is well positioned to help supply growing global demand for agricultural products and services.

During 1973, Brewer received three additional contracts expanding the agronomic management activities it has conducted in Iran since 1958. These projects are helping Iran to attain agricultural self-sufficiency and economic diversification.

In late 1973, Brewer substantially expanded its macadamia nut operation through acquisition of additional acreage and processing facilities in Hawaii.

## LAND MANAGEMENT AND TOURISM

Millions	1973	1972	1971	1970	1969
<b>Revenues</b>	\$209.0	\$150.2	\$141.0	\$129.4	\$106.0
<b>Income Contribution</b>	\$ 4.6	\$ 4.8	\$ 2.8	\$ 2.7	\$ 3.8

Income from Brewer's resort and land development operations was slightly lower in 1973. Improved results are expected in 1974, partly from stronger land sales plus improved revenues and cost performance by resort operations in Hawaii.

Introductory costs connected with the mid-1973 addition of a new luxury ship to the Royal Viking Line's modern world-wide fleet negatively affected earnings of the cruise ship operations of Gotaas-Larsen. The Florida-based cruise operations have not been greatly affected by the fuel shortage.



More than 66 billion gallons of water are purified (above) and distributed each year by IU. Brewer orchards in Hawaii (below) produce the world's largest supply of macadamia nuts.

## 1973 Financial Review

### Sales and Revenues

IU's 1973 sales and revenues were \$1.55 billion, a new record and a 25 per cent gain over \$1.23 billion in 1972.

### Net Income

Net income in 1973 was \$73.9 million, up 22 per cent from \$60.7 million a year earlier. Earnings from operations were \$2.31 per share, including common stock equivalents, a 23 per cent increase from \$1.88 in 1972. Including an extraordinary credit, 1972 earnings were \$1.90 per share. Both income and earnings per share in 1973 were new IU records.

The insurance on the Golar Patricia, the Gotaas-Larsen supertanker which sank in November 1973, was based on market value and, as in the case of nearly every ship in the fleet, greatly exceeded its book value. Because of a 1973 ruling by the Accounting Principles Board restricting the definition of extraordinary income, IU is required to include as ordinary income in 1973 an after-tax gain of \$8.6 million from the insurance proceeds. During the year, IU revised its plan for development of land held for sale; this and other write-downs totaled about the same amount.

### Capital Expenditures

Capital expenditures in 1973 totaled \$159 million, a 13 per cent decrease from \$183 million a year earlier.

Retained cash flow and new financing at the operating company level are the principal sources of financing for IU's capital expenditures. During 1973, depreciation totaled \$66.3 million, a 12 per cent increase from \$59.1 million in 1972.

For 1974, IU's capital expenditures are scheduled to increase to approximately \$270 million as follows: Ocean Shipping, \$90 million; Energy Systems, \$5 million; Electric and Gas Services, \$70 million; Transportation Services, \$31 million; Distribution Services, \$15 million; Waste Management Services, \$9 million; Water Management Services, \$20 million; Land Management and Tourism, \$30 million.

### Assets

IU's assets on Dec. 31, 1973 amounted to \$1.67 billion, an increase of 7 per cent compared with \$1.55 billion a year earlier. The depreci-

ated value of property, plant and equipment exceeded \$1 billion for the first time at the end of 1973.

### New Financing

The more significant new financing activities during 1973 included project and lease financing for Gotaas-Larsen aggregating \$75 million; an institutional private placement of \$15 million by Canadian Utilities, and commercial mortgage and tax-exempt financings for real estate needs of the transportation/distribution operating companies totaling \$8.4 million. In addition, bank credits were negotiated to meet short- and medium-term financing needs of IU's subsidiaries.

Unused credit facilities totaled approximately \$225 million at year-end.

IU's common stock was listed on the Oslo Stock Exchange in June 1973, reflecting the company's substantial interests in shipping and North Sea energy exploration activities.

In September, IU exchanged shares of Canadian Utilities Limited \$1.25 convertible second preferred shares for IU common shares held by Canadian residents. In this exchange, IU received 420,000 common shares.

In December, IU was one of the first six non-Japanese companies to have its common shares listed on the Tokyo Stock Exchange. To meet the listing requirements, IU placed 500,000 shares, including the 420,000 shares obtained in Canada, in an underwritten offering to the Japanese public. This listing reflected the growing long-range importance of Tokyo as a major financial market as well as IU's relationships with Japan through extensive ocean shipping programs.

### Interest Rates

During 1973 external money market conditions precipitated a rapid increase in the prime rate—the minimum commercial interest rate applicable to major corporate borrowers. The increase in the average prime rate during 1973, compared with that of 1972, reduced IU's consolidated earnings by approximately \$7 million pretax.

### Dividends

Dividends of 75 cents per common share were paid in 1973, the 29th consecutive year of higher payout to IU shareholders and the 49th year in which the company paid dividends.

## Sources of Sales & Revenues and Income

(In thousands)

	Sales & Revenues		Income	
	1973	1972	1973	1972
<b>Contributions by major markets:</b>				
Energy Operations:				
Ocean Shipping .....	\$ 178,036	\$ 123,933	\$ 54,554	\$ 31,644
Energy Systems.....	136,356	118,067	3,238	5,608
Electric & Gas Services .....	120,928	114,315	16,932	18,270
Total.....	<u>435,320</u>	<u>356,315</u>	<u>74,724</u>	<u>55,522</u>
Transportation/Distribution Operations:				
Transportation Services .....	343,450	300,932	10,766	12,076
Distribution Services .....	390,517	283,933	10,672	9,029
Total.....	<u>733,967</u>	<u>584,865</u>	<u>21,438</u>	<u>21,105</u>
Environmental Operations:				
Waste Management Services.....	53,164	44,282	8,099	6,217
Water Management Services .....	39,272	36,313	7,025	6,589
Land Management & Tourism .....	208,986	150,219	4,564 <sup>(1)</sup>	4,768 <sup>(1)</sup>
Total.....	<u>301,422</u>	<u>230,814</u>	<u>19,688</u>	<u>17,574</u>
<b>Total major markets .....</b>	<b>1,470,709</b>	<b>1,171,994</b>	<b>115,850</b>	<b>94,201</b>
Non-strategic businesses (2) .....	66,212	50,538	2,768	284
Other (3) .....	11,638	11,598	2,628	(2,291)
Corporate expenses, including interest .....	—	—	(20,346)	(13,268)
Income taxes (4).....	—	—	(27,043)	(18,934)
<b>Total sales &amp; revenues.....</b>	<b><u>\$1,548,559</u></b>	<b><u>\$1,234,130</u></b>		
Income before extraordinary item .....			73,857	59,992
Extraordinary item.....			—	684
<b>Net income.....</b>			<b>73,857</b>	<b>60,676</b>
Dividend requirement on preferred stock.....			1,672	2,231
Net income applicable to common and common equivalent shares.....			<b><u>\$ 72,185</u></b>	<b><u>\$ 58,445</u></b>

(1) Includes C. Brewer's contribution on an after-tax basis.

(2) Principally businesses to be divested.

(3) Includes businesses divested, gain from insurance proceeds on sinking of vessel and other writedowns.

(4) Consolidated income taxes, 1973—\$32,514; 1972—\$23,586.

## Summary of Significant Accounting Policies

### Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and all subsidiaries, except an insurance underwriting subsidiary and certain non-United States subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. Investments in unconsolidated majority-owned subsidiaries and investments in companies and joint ventures owned more than 20 per cent are accounted for on the equity basis, and the appropriate portion of the earnings of such companies is included in consolidated income. A subsidiary's investment in the capital stock of cooperatives is carried at cost.

Current assets and liabilities of subsidiaries located outside the United States are translated into United States dollar equivalents at appropriate year-end exchange rates, and noncurrent assets and liabilities are translated at historical rates. Income and expense accounts are translated at average exchange rates, except that depreciation is translated at historical rates. Exchange adjustments are charged or credited to income in the year experienced.

### Revenue Recognition

Ocean shipping revenue is recognized ratably over the period of the time charter agreements or over the life of the voyage on most other agreements.

The installment method is used for reporting income from term sales of raw land until the amount of principal paid reaches from 20 to 30 per cent of the sale price, depending upon individual circumstances, at which time the balance of the sale is recognized.

### Inventories

Inventories generally are stated at the lower of cost or market. Due to diversified operations, several bases of determining cost are used.

### Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Depreciation is provided principally on the straight-line basis, except for certain ocean shipping subsidiaries which use the declining-balance method, over the estimated useful lives of the related assets. Upon sale or retirement of non-utility properties, costs and related depreciation are eliminated and gains or losses are recorded. Upon sale or retirement of depreciable utility

properties, costs are transferred to accumulated depreciation and no gain or loss is recognized.

Interest and other overhead costs incurred during construction are added to cost of utility plant and ocean vessels.

### Operating Rights and Other Intangibles

Operating rights and other intangibles consist of: (a) trucking companies' operating rights; (b) net excess of cost of investments in subsidiaries over underlying net assets; and (c) other intangibles.

Intangibles having a limited life are amortized over their useful lives. The excess of the cost of investments in subsidiaries over net assets of companies acquired is not being amortized, except that portion relating to companies acquired after October 31, 1970, as long as there is no present indication that such excess has a determinable life or existence.

### Pension Plans

The Corporation and certain of its subsidiaries have various insured or trustee pension plans, some of which require employee contributions, and which generally provide for normal retirement at age 65. The unfunded past service liabilities under such plans are amortized over periods not exceeding 40 years. Generally, it is the Corporation's policy to fund pension costs accrued.

### Income Taxes

Provision is made for deferred income taxes and future income tax benefits applicable to timing differences between book and taxable income, except that certain utility subsidiaries are claiming depreciation and certain other expenses for income tax purposes in excess of the amounts recorded in the accounts without providing for the related income tax deferral. In setting rates, these utilities recover only income taxes payable currently.

Certain subsidiaries operate in countries where their income is substantially free of taxation or is effectively taxed at rates lower than in the United States. Income taxes have been provided on that portion of the earnings of such subsidiaries considered not to be continuously reinvested outside the United States.

The investment credit is accounted for by the flow-through method, except that utility subsidiaries allocate the credit over the depreciable lives of the related assets.

## Statements of Consolidated Income

Years ended December 31, 1973 and 1972

(In thousands, except per share data)

	<u>1973</u>	<u>1972</u>
SALES, REVENUES AND OTHER INCOME (note 3) .....	\$1,548,559	\$1,234,130
COSTS AND EXPENSES:		
Cost of products sold and other operating costs and expenses, excluding depreciation and amortization .....	1,110,116	876,286
Selling, general and administrative expenses, excluding depreciation and amortization .....	196,186	166,867
Depreciation and amortization .....	66,285	59,145
Interest and debt expense (note 2) .....	60,942	39,537
Income taxes (note 10) .....	32,514	23,586
Minority interests .....	8,659	8,717
	<u>1,474,702</u>	<u>1,174,138</u>
INCOME BEFORE EXTRAORDINARY ITEM .....	73,857	59,992
EXTRAORDINARY ITEM (note 3) .....	—	684
NET INCOME .....	<u>73,857</u>	<u>60,676</u>
DIVIDEND REQUIREMENT ON PREFERRED STOCK .....	1,672	2,231
NET INCOME APPLICABLE TO COMMON AND COMMON EQUIVALENT SHARES ...	<u>\$ 72,185</u>	<u>\$ 58,445</u>
EARNINGS PER SHARE (note 12):		
PER AVERAGE COMMON AND COMMON EQUIVALENT SHARE:		
Income before extraordinary item .....	\$ 2.31	\$ 1.88
Extraordinary item .....	—	.02
Net income .....	<u>\$ 2.31</u>	<u>\$ 1.90</u>
ASSUMING FULL DILUTION:		
Income before extraordinary item .....	\$ 2.07	\$ 1.65
Extraordinary item .....	—	.02
Net income .....	<u>\$ 2.07</u>	<u>\$ 1.67</u>

See accompanying summary of significant accounting policies and notes to financial statements.

## Consolidated Balance Sheets

December 31, 1973 and 1972

(In thousands)

	1973	1972*
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash.....	\$ 68,878	\$ 40,382
Accounts receivable, less allowance, 1973—\$4,690; 1972—\$4,546 .....	212,753	215,384
Inventories (note 4).....	142,305	116,540
Prepaid expenses and other current assets .....	27,958	26,174
Total current assets.....	<u>451,894</u>	<u>398,480</u>
<b>RESTRICTED CASH DEPOSITS (1973—\$6,714; 1972—\$8,972),</b>		
<b>NONCURRENT ACCOUNTS AND NOTES RECEIVABLE.....</b>	<b>39,484</b>	<b>49,514</b>
<b>LAND HELD FOR SALE OR DEVELOPMENT (note 3) .....</b>	<b>22,729</b>	<b>29,170</b>
<b>COOPERATIVES, JOINT VENTURES AND SUBSIDIARIES</b>		
AT EQUITY (note 5) .....	76,264	63,206
INVESTMENTS (note 6) .....	11,829	25,688
<b>PROPERTY, PLANT AND EQUIPMENT (note 7).....</b>	<b>1,435,346</b>	<b>1,313,722</b>
Less accumulated depreciation and amortization .....	431,367	386,525
Net property, plant and equipment.....	<u>1,003,979</u>	<u>927,197</u>
DEFERRED CHARGES, less amortization.....	18,501	19,707
OPERATING RIGHTS AND OTHER INTANGIBLES, net .....	40,420	36,093
Total assets.....	<u>\$1,665,100</u>	<u>\$1,549,055</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Notes payable (note 8).....	\$ 91,057	\$ 87,912
Accounts payable and accrued liabilities .....	193,324	177,022
Income taxes (note 10).....	10,228	2,387
Long-term debt—current maturities (note 8).....	50,444	39,066
Total current liabilities.....	<u>345,053</u>	<u>306,387</u>
<b>LONG-TERM DEBT (note 8).....</b>	<b>583,247</b>	<b>590,656</b>
<b>OTHER LIABILITIES, principally utility construction advances.....</b>	<b>98,462</b>	<b>87,613</b>
<b>DEFERRED INCOME TAXES (note 10) .....</b>	<b>34,628</b>	<b>25,050</b>
<b>MINORITY INTEREST IN SUBSIDIARIES.....</b>	<b>109,599</b>	<b>97,410</b>
<b>SHAREHOLDERS' EQUITY (note 11):</b>		
Series preferred stock.....	28,053	30,868
Series preference stock.....	41,560	48,107
Common stock .....	34,676	32,650
Additional paid-in capital.....	117,486	101,055
Retained earnings (note 8) .....	<u>309,280</u>	<u>256,454</u>
	531,055	469,134
Less shares in treasury, at cost.....	36,944	27,195
Total shareholders' equity .....	<u>494,111</u>	<u>441,939</u>
Total liabilities and shareholders' equity.....	<u>\$1,665,100</u>	<u>\$1,549,055</u>

\*Certain items have been reclassified to conform to current classification.

See accompanying summary of significant accounting policies and notes to financial statements.

## Statements of Consolidated Additional Paid-In Capital

Years ended December 31, 1973 and 1972

(In thousands)

	1973	1972
AMOUNT AT BEGINNING OF YEAR .....	\$101,055	\$ 71,969
Adjustment to reflect acquisition of pooled subsidiary .....	—	3,162
	<u>101,055</u>	<u>75,131</u>
ADD (DEDUCT):		
Capital in excess of par or stated value of shares issued upon:		
Acquisition of subsidiaries .....	(1,100)	9,677
Conversion of bonds of a subsidiary into common .....	338	1,358
Conversion of preferred stock into common .....	2,466	7,270
Conversion of Special Stock, Series A into common.....	5,532	9,600
Exercise of employees' stock options and stock purchase plans.....	5,776	1,706
Sale of shares in Japan .....	3,685	—
Excess of market value at date of exchange of Continental Telephone Corporation stock plus other consideration over aggregate par value of subsidiary's preferred stock (note 3).....	—	(2,971)
Other adjustments, net .....	<u>(266)</u>	<u>(716)</u>
AMOUNT AT END OF YEAR.....	<u>\$117,486</u>	<u>\$101,055</u>

## Statements of Consolidated Retained Earnings

Years ended December 31, 1973 and 1972

(In thousands)

	1973	1972
AMOUNT AT BEGINNING OF YEAR .....	\$256,454	\$208,971
Adjustment to reflect acquisition of pooled subsidiary .....	—	6,760
	<u>256,454</u>	<u>215,731</u>
Net income .....	<u>73,857</u>	<u>60,676</u>
	<u>330,311</u>	<u>276,407</u>
DEDUCT:		
Dividends:		
Preferred.....	1,697	2,569
Common (1973—\$.75; 1972—\$.725 per share).....	18,865	17,195
Pooled subsidiary prior to acquisition .....	188	189
Other adjustments, net .....	281	—
	<u>21,031</u>	<u>19,953</u>
AMOUNT AT END OF YEAR .....	<u>\$309,280</u>	<u>\$256,454</u>

See accompanying summary of significant accounting policies and notes to financial statements.

## Statements of Changes in Consolidated Financial Position

Years ended December 31, 1973 and 1972

(In thousands)

	1973	1972*
<b>SOURCES OF WORKING CAPITAL:</b>		
Income before extraordinary item.....	\$ 73,857	\$ 59,992
Add net charges not requiring funds, principally		
depreciation and amortization .....	78,721	58,862
Provided from operations .....	152,578	118,854
Extraordinary item of \$684, less nonfund amounts of \$3,369 .....	—	(2,685)
Disposition of property, plant and equipment .....	45,469	33,666
Sales of other noncurrent assets .....	28,963	59,628
Issuance of long-term debt .....	111,665	182,146
Issuance of capital stock, including treasury stock .....	26,793	26,178
Other .....	2,480	4,260
Total sources .....	<u>367,948</u>	<u>422,047</u>
<b>USES OF WORKING CAPITAL:</b>		
Purchase of property, plant and equipment .....	159,243	183,429
Acquisition of other noncurrent assets .....	26,794	43,073
Reduction of long-term debt.....	119,074	98,075
Redemption and conversion of preferred stock.....	2,843	13,607
Purchase of treasury stock .....	24,496	14,960
Dividends on preferred and common shares .....	20,750	19,953
Par value of preferred stock retired.....	—	21,067
Total uses .....	<u>353,200</u>	<u>394,164</u>
INCREASE in working capital .....	<u>\$ 14,748</u>	<u>\$ 27,883</u>
<b>CHANGES IN WORKING CAPITAL:</b>		
Cash .....	\$ 28,496	\$ (9,541)
Accounts receivable, less allowance .....	(2,631)	22,159
Inventories.....	25,765	7,124
Prepaid expenses and other current assets .....	1,784	3,346
Total .....	<u>53,414</u>	<u>23,088</u>
Notes payable .....	3,145	582
Accounts payable and accrued liabilities.....	16,302	16,829
Income taxes .....	7,841	(16,683)
Long-term debt—current maturities .....	11,378	(5,523)
Total .....	<u>38,666</u>	<u>(4,795)</u>
INCREASE in working capital .....	<u>\$ 14,748</u>	<u>\$ 27,883</u>

\*Certain items have been reclassified to conform to current classification.

See accompanying summary of significant accounting policies and notes to financial statements.

## Notes to Financial Statements

### Note 1 Business Combinations

On December 26, 1973, the Corporation acquired all of the outstanding stock of Codesco Inc. (Codesco), a dealer in dental supplies, services and equipment, in exchange for 693,102 shares of common stock. Pooling-of-interests accounting treatment has been applied to the acquisition of Codesco and accordingly Codesco's operations have been included with those of the Corporation. Codesco's contribution in 1973 and 1972 to sales and revenues was \$44,125,000 and \$41,999,000 and to net income was \$762,000 and \$1,293,000, respectively. The results of operations of Codesco for their year ended March 31, 1973 are included in the consolidated statement of income for the year ended December 31, 1972.

Sales and revenues and net income for 1972 have been restated from amounts previously reported to give effect to the pooling of interests as follows:

	Sales and Revenues	Net Income
Amounts previously reported.....	\$1,192,131,000	\$ 59,383,000
Pooling with Codesco.....	41,999,000	1,293,000
Amounts restated .....	<u>\$1,234,130,000</u>	<u>\$ 60,676,000</u>

During 1973 the Corporation acquired, in purchase transactions, three companies for 238,548 shares of common stock, cash and notes, amounting to an aggregate consideration of \$5,899,000. During 1972 four companies were acquired, in purchase transactions, for 797,858 shares of common stock and cash, amounting to an aggregate consideration of \$35,573,000. The operations of these companies are included in the financial statements from the dates of acquisition. Pro forma results of operations reflecting the acquired companies as though they had been consolidated on January 1, 1972 are as follows:

	1973	1972
Sales and revenues .....	\$1,558,131,000	\$1,307,473,000
Income before extraordinary item .....	74,016,000	60,879,000
Net income .....	74,016,000	61,563,000
Primary earnings per share .....	2.31	1.90

### Note 2 Non-United States Operations

A summary of significant items with respect to non-United States operations follows:

	1973				1972			
	Net Current Assets	Total Assets	Sales and Revenues	Net Income	Net Current Assets	Total Assets	Sales and Revenues	Net Income
Canadian—Gas and Electric	\$(27,141,000)	\$366,600,000	\$120,927,000	\$12,522,000	\$(19,175,000)	\$338,107,000	\$114,315,000	\$12,939,000
Various countries— Ocean shipping	(2,971,000)	283,575,000	212,481,000	49,907,000	(12,339,000)	251,842,000	134,887,000	27,534,000
Other non-U.S.	9,820,000	56,957,000	70,673,000	5,718,000	5,754,000	34,827,000	36,976,000	1,738,000
Total non-U.S.	<u>\$(20,292,000)</u>	<u>\$707,132,000</u>	<u>\$404,081,000</u>	<u>\$68,147,000</u>	<u>\$(25,760,000)</u>	<u>\$624,776,000</u>	<u>\$286,178,000</u>	<u>\$42,211,000</u>

Translated at the rates of exchange in effect at December 31, 1973, noncurrent accounts and notes receivable would increase by \$73,000 and long-term debt would increase by \$5,985,000. Net currency exchange adjust-

ments of \$9,861,000, including \$9,717,000 as the result of the repayment of long-term debt which is included in interest and debt expense, in 1973 and \$324,000 in 1972 have been charged to income.

### Note 3 Income Presentation

As required by Opinion No. 30, adopted in 1973 by the Accounting Principles Board of the American Institute of Certified Public Accountants, the Corporation has changed its criteria for the types of items to be included in determining income before extraordinary items in the statement of consolidated income. In 1973, transactions of the type as summarized below were included in determining income before extraordinary items, in conformity with the newly-issued Opinion. The Opinion prohibits restating the 1972 financial statements. Had the Opinion been in effect for 1972, net income would have been the same, but income before extraordinary item would have been \$60,676,000 (\$1.90 per average common and common equivalent share) rather than the

\$59,992,000 (\$1.88 per average common and common equivalent share) as reported.

Included in other income are the following significant items:

	1973	1972
Interest and dividends .....	\$ 8,083,000	\$ 8,880,000
Gain on ships sold.....	650,000	5,489,000
Excess of insurance proceeds over carrying value of lost vessel.....	16,617,000	—
Gain on sales or exchange of securities and other investments .....	5,764,000	—
Provision for loss on disposition of subsidiaries and certain other assets .....	(6,792,000)	—
Writedown of land held for sale or development .....	(7,980,000)	—

During 1973 a vessel owned by a subsidiary sank at a time it was not carrying oil. Insurance proceeds resulted in a gain of \$16,617,000, which after a provision for additional income taxes on foreign operations of \$7,976,000 resulted in a net gain of \$8,641,000.

The gain on sales or exchange of securities and other investments arose principally from an exchange of a portion of the Corporation's investment in the preferred stock of a subsidiary for common shares of the Corporation. The gain in the amount of \$5,208,000 was substantially free of income taxation. The investment in Chemical Leaman Tank Lines common stock and certain other investments were also disposed of, resulting in a net gain of \$556,000 after application of reserves provided in prior years. A provision of \$6,792,000 was made during 1973 for anticipated losses on the disposition of certain subsidiaries and other assets. Tax benefits of \$745,000 were recorded on these transactions.

In December 1973 certain land held for sale or development was reappraised based on the Corporation's current plan for disposition of such property, and accordingly the carrying value thereof was reduced by

\$7,980,000. No carrying costs were added to the basis of this property in 1973 in accordance with the revised plan of disposition. Recoverable income taxes of \$2,190,000 were recorded in connection with this reappraisal.

During 1972 the Corporation sold a portion of its investment in common stock of Continental Telephone Corporation and exchanged the remainder of its investment for all the outstanding shares of \$4.40 Voting Preferred Stock of GWC Incorporated, a subsidiary, and disposed of certain other miscellaneous investments resulting in a gain of approximately \$9,645,000, net of tax of \$9,705,000, after application of reserves provided in prior years. A provision of \$8,961,000, net of related tax benefit of \$3,680,000, was made during 1972 for anticipated losses on disposition of certain subsidiaries, non-current assets, and other investments resulting in a net gain of \$684,000. This gain was reflected as an extraordinary item in 1972 as recurring material gains or losses from such sources at that time were not anticipated in the future.

#### Note 4 Inventories

Inventories at December 31, 1973 and 1972 are summarized as follows:

	1973	1972
Finished products .....	\$ 41,435,000	\$ 32,403,000
Work in process .....	31,556,000	27,886,000
Raw materials and supplies .....	37,794,000	32,541,000
Merchandise and commodities .....	26,489,000	21,596,000
Other .....	5,031,000	2,114,000
	<u>\$142,305,000</u>	<u>\$116,540,000</u>

Merchandise and commodities inventories of a 54% owned subsidiary include items valued on a last-in, first-out (LIFO) basis with an aggregate cost of \$3,350,000 and \$3,560,000 at December 31, 1973 and 1972, respectively, which is approximately \$9,250,000 and \$1,900,000, respectively, less than the cost of such inventories valued on a first-in, first-out basis. The reduction of inventories carried on a LIFO basis had no material effect on income.

#### Note 5 Cooperatives, Joint Ventures and Subsidiaries At Equity

Cooperatives, joint ventures and subsidiaries at equity consist of the following:

	Carrying Value	
	1973	1972
Capital stock of cooperatives .....	\$13,206,000	\$12,469,000
Joint ventures, principally		
partnerships in vessels .....	45,416,000	33,831,000
Subsidiaries at equity .....	20,642,000	20,236,000
Provision for possible loss .....	(3,000,000)	(3,330,000)
	<u>\$76,264,000</u>	<u>\$63,206,000</u>

Dividends received from the above sources were \$4,931,000 in 1973 and \$1,537,000 in 1972.

#### Note 6 Investments

Investments at December 31, 1973 and 1972 consist of the following:

	Carrying Value	
	1973	1972
Bonds and debentures, at cost (market value 1973—\$6,437,000; 1972—\$6,420,000) .....	\$ 6,252,000	\$ 6,346,000
Petroleum properties .....	—	10,354,000
Other investments, including		
\$5,500,000 Chemical Leaman Tank Lines common stock in 1972 .....	7,682,000	12,380,000
Provision for possible loss .....	(2,105,000)	(3,392,000)
	<u>\$11,829,000</u>	<u>\$25,688,000</u>

During 1973 the Corporation consolidated the accounts of the petroleum properties which were previously carried as an investment. These properties were carried at cost in the previous year, which approximated equity, and the change had no effect on operations or income.

### Note 7 Property, Plant and Equipment

Property, plant and equipment is summarized as follows:

	1973	1972
Ocean Shipping.....	\$ 214,044,000	\$ 205,642,000
Electric and Gas Services .....	437,103,000	402,398,000
Energy Systems .....	65,780,000	59,969,000
Transportation Services.....	157,049,000	147,106,000
Distribution Services.....	85,620,000	73,722,000
Water Management.....	227,073,000	209,673,000
Waste Management.....	44,130,000	41,559,000
Land Management and Tourism...	149,196,000	134,386,000
Other.....	55,351,000	39,267,000
	<u>\$1,435,346,000</u>	<u>\$1,313,722,000</u>

During 1973 and 1972, interest and other overhead costs related to construction of utility plant and ocean vessels were capitalized in the amounts of \$13,929,000 and \$13,810,000, respectively.

### Note 8 Debt

Short-term notes payable at December 31, 1973 have an average interest rate of 10.5% and represent borrowings by subsidiaries under lines of credit, \$4,800,000 of which is secured. During 1973, the maximum borrowings and the average borrowings under short-term credit arrangements amounted to \$128,700,000 and \$104,800,000, respectively, and had a weighted average interest rate of 8%. At December 31, 1973 unused short-term credit facilities amounted to \$140,000,000 and unused long-term credit facilities amounted to \$85,000,000.

Long-term debt at December 31, 1973 and 1972, payable by subsidiaries, is summarized as follows:

	1973	1972
FIRST MORTGAGE BONDS:		
Due 1973 to 1997; 3 $\frac{1}{2}$ % to 9 $\frac{3}{4}$ % (Weighted average interest rate 1973—6.2%).....	\$129,267,000	\$136,486,000
OTHER:		
SECURED:		
Due 1973 to 1997; 4% to 11 $\frac{1}{4}$ % (Weighted average interest rate 1973—7.5%).....	171,055,000	153,724,000
UNSECURED:		
Due 1973 to 1997; 4 $\frac{3}{4}$ % to 12% (Weighted average interest rate 1973—8.7%).....	333,369,000	339,512,000
	<u>633,691,000</u>	<u>629,722,000</u>
Less current maturities.....	50,444,000	39,066,000
	<u>\$583,247,000</u>	<u>\$590,656,000</u>

The mortgage bonds and secured debt are subject to various indentures and agreements requiring, among other things, either the mortgaging of properties, the pledging of investments in subsidiaries or, in certain instances, a combination of both. Sinking fund requirements and installments of long-term debt maturing in the years 1975, 1976, 1977 and 1978 amount to approximately \$62,957,000, \$102,951,000, \$61,448,000 and \$52,661,000, respectively, after deducting bonds which have been repurchased and excluding requirements which may be satisfied by certification of property additions.

The Corporation maintains cash balances at certain banks related, in part to the outstanding balance of certain bank loans and, in part to anticipation of future credit negotiations. During 1973, the aggregate average of such cash balances, based on the relationship of the bank collected balance to the cash balance, were approximately \$36,000,000 and at December 31, 1973 were approximately \$28,000,000. These funds are not subject to withdrawal restrictions.

The bond indentures and note agreements executed by the Corporation and certain subsidiaries place limitations on the Corporation and its subsidiaries, including restrictions on the payment of dividends. Of the consolidated retained earnings at December 31, 1973 approximately \$141,000,000 was free from such restrictions.

### Note 9 Pension Plans

The total unfunded past service liabilities under pension plans amount to approximately \$44,200,000 at December 31, 1973. Unfunded vested benefits at

December 31, 1973 are estimated to be \$6,800,000. Total charges against income during 1973 and 1972 were \$8,700,000 and \$8,800,000, respectively.

### Note 10 Income Taxes

The components of the provision for income taxes for the two years ended December 31, 1973 are as follows:

	1973	1972
Current:		
Federal.....	\$15,962,000	\$11,576,000
State and local .....	2,275,000	1,910,000
Foreign.....	8,194,000	9,332,000
Investment tax credit.....	(2,766,000)	(1,166,000)
	<u>23,665,000</u>	<u>21,652,000</u>
Deferred:		
Federal.....	7,641,000	2,650,000
State and local .....	328,000	198,000
Foreign.....	880,000	(914,000)
	<u>8,849,000</u>	<u>1,934,000</u>
	<u>\$32,514,000</u>	<u>\$23,586,000</u>

The sources of the differences between income for financial statement purposes and tax purposes were as follows:

	1973	1972
Excess tax over book depreciation.....	\$2,422,000	\$1,104,000
Provision for losses on investments and other assets .....	(3,085,000)	—
Future repatriation of foreign earnings of subsidiaries.....	7,976,000	—
Other.....	1,536,000	830,000
	<u>\$8,849,000</u>	<u>\$1,934,000</u>

The Corporation's effective tax rates of 30.6% and 28.2% for the years 1973 and 1972, respectively, were less than the United States income tax rate of 48% for the following reasons:

	1973	1972
Federal income tax rate.....	48.0 %	48.0 %
Earnings from non-United States subsidiaries continuously reinvested outside the United States.....	(11.9)%	(13.1)%
Accelerated depreciation claimed by utility operations.....	(5.7)%	(7.7)%
Investment tax credit.....	(2.6)%	(1.4)%
Tax free gain from exchange of investment in subsidiary.....	(2.4)%	—
Minority interest—no tax effect .....	3.9 %	5.0 %
Losses on assets without tax benefit .....	3.9 %	—
Other.....	(2.6)%	(2.6)%
Effective Tax Rates	<u>30.6%</u>	<u>28.2 %</u>

The Corporation anticipates the deferred income tax balance will be reduced within the next three years by approximately \$8,000,000 as a result of the repatriation of the insurance proceeds from the sinking of a vessel.

At December 31, 1973 the Corporation had not provided income taxes on \$79,000,000 of undistributed earnings of non-United States subsidiaries since such earnings are being continuously reinvested in plant and vessels outside the United States and it is the Corporation's intention to continue this policy.

### Note 11 Capital Stock

The charter of the Corporation was amended effective September 29, 1972 increasing the number of authorized common shares from 30,000,000 to 60,000,000, decreasing the par value of the common shares from \$2.50 to \$1.25 per share, and effecting a two-for-one

stock split of the common shares then outstanding.

The authorized and issued capital stock of the Corporation at December 31, 1973 and 1972 is summarized below:

	Issued at December 31, 1973		Issued at December 31, 1972	
	Shares	Stated or par value	Shares	Stated or par value
Series preferred stock, without par value:				
Authorized 4,814,708 shares; reserved 1,000 shares, classified as \$1.25 convertible series, for exercise of stock options				
Issued:				
\$5.00 series (in treasury at both dates—3,760 shares) .....	93,302	\$ 9,563,000	93,302	\$ 9,563,000
\$1.25 convertible series (in treasury 1973—304,532 shares; 1972—252,532 shares) aggregate liquidation value—\$30,502,000 .....	1,220,080	18,490,000	1,405,897	21,305,000
	<u>1,313,382</u>	<u>\$28,053,000</u>	<u>1,499,199</u>	<u>\$30,868,000</u>
Series preference stock, without par value:				
Authorized 6,716,443 shares				
Issued—Special Stock, Series A (in treasury 1973—176,371 shares; 1972—121,371 shares) .....	2,146,482	\$41,560,000	2,485,088	\$48,107,000
Common stock, par value \$1.25 per share:				
Authorized 60,000,000 shares; reserved for conversion of preferred stock, 1,953,728 shares; for conversion of Special Stock, Series A, 9,406,313 shares; for conversion of bonds of a subsidiary, 214,875 shares; for exercise of warrants attached to bonds of a subsidiary, 180,000 shares; and for stock option and stock purchase plans, 2,161,656 shares				
Issued (in treasury 1973—1,040,336 shares; 1972—971,638 shares) .....	<u>27,740,365</u>	<u>\$34,676,000</u>	<u>26,119,881</u>	<u>\$32,650,000</u>

The holders of preferred stock are entitled to cumulative dividends payable at the respective rates set out in the titles of the various series and have voting rights. The holders of the \$5.00 Preferred Stock, upon liquidation or redemption, are entitled to receive the stated value plus accrued and unpaid dividends. The \$1.25 Convertible Preferred Stock is redeemable any time after November 30, 1976 at \$25 per share. At December 31, 1973, each share of the \$1.25 Convertible Preferred Stock was convertible at any time into 1.6 common shares.

Holders of Special Stock, Series A are not entitled to

receive any dividends; they have voting rights and on liquidation are entitled to receive \$15 per share subject to the liquidation rights of the preferred shareholders. The Special Stock, Series A is convertible into 2.5306 and 2.4334 shares of common stock through December 31, 1974 and 1973, respectively, after which the conversion rates increase to a maximum of 4.3822 common shares on January 1, 1988. It is redeemable after December 31, 1977 at \$70 per share.

Changes in capital stock during the years ended December 31, 1973 and 1972 are summarized as follows:

	1973			1972		
	Preferred	Special Stock, Series A	Common	Preferred	Special Stock, Series A	Common
Shares issued at beginning of year.....	1,499,199	2,485,088	26,119,881	2,096,296	3,062,929	22,312,206
Acquisition of pooled subsidiary .....	—	—	—	—	—	694,590
	<u>1,499,199</u>	<u>2,485,088</u>	<u>26,119,881</u>	<u>2,096,296</u>	<u>3,062,929</u>	<u>23,006,796</u>
Shares sold in Japan .....	—	—	80,000	—	—	—
Conversion of preferred stock .....	(187,617)	—	300,184	(553,677)	—	885,866
Redemption or retirement of preferred stock.....	—	—	—	(53,363)	—	—
Conversion of Special Stock, Series A.....	—	(339,100)	825,039	—	(585,644)	1,369,907
Acquisition of subsidiaries .....	—	—	1,578	—	—	650,509
Exercised under stock option and purchase plans .....	1,800	494	399,265	9,943	7,803	114,942
Conversion of bonds of a subsidiary .....	—	—	22,928	—	—	92,090
Retirement of treasury stock .....	—	—	(8,510)	—	—	(229)
Shares issued at end of year .....	<u>1,313,382</u>	<u>2,146,482</u>	<u>27,740,365</u>	<u>1,499,199</u>	<u>2,485,088</u>	<u>26,119,881</u>

Changes in treasury stock during the years ended December 31, 1973 and 1972 are summarized as follows:

	1973			1972		
	Preferred	Special Stock, Series A	Common	Preferred	Special Stock, Series A	Common
Shares held at beginning of year.....	256,292	121,371	971,638	260,207	121,371	463,188
Acquired .....	52,000	55,000	735,756	465	—	656,817
Reissued .....	—	—	(658,548)	—	—	(148,138)
Sold .....	—	—	—	(2,400)	—	—
Cancelled .....	—	—	(8,510)	(1,980)	—	(229)
Shares held at end of year .....	<u>308,292</u>	<u>176,371</u>	<u>1,040,336</u>	<u>256,292</u>	<u>121,371</u>	<u>971,638</u>

Options to certain officers and employees of the Corporation and its subsidiaries were outstanding at December 31, 1973 and 1972 pursuant to a Qualified Stock Option Plan and a Nonqualified Stock Option and Stock Unit Award Plan. Options are exercisable in vary-

ing amounts over periods from one to 10 years from the date of grant, at prices from 85% to 100% of the fair market value of the stock at the date of grant.

The changes in the outstanding options during 1973 and 1972 were as follows:

	1973			1972		
	\$1.25 Convertible Preferred Stock	Special Stock, Series A	Common	\$1.25 Convertible Preferred Stock	Special Stock, Series A	Common
Shares under option at beginning of year .....	2,800	494	491,103	12,743	8,862	397,580
Acquisition of pooled subsidiary .....	—	—	—	—	—	27,713
	<u>2,800</u>	<u>494</u>	<u>491,103</u>	<u>12,743</u>	<u>8,862</u>	<u>425,293</u>
Granted .....	—	—	110,092	—	—	203,752
Exercised .....	(1,800)	(494)	(76,145)	(9,943)	(7,803)	(104,582)
Cancelled or expired.....	—	—	(16,765)	—	(565)	(33,360)
Shares under option at end of year .....	<u>1,000</u>	<u>—</u>	<u>508,285</u>	<u>2,800</u>	<u>494</u>	<u>491,103</u>
Average option price.....	<u>\$13.03</u>	<u>—</u>	<u>\$20.57</u>	<u>\$14.65</u>	<u>\$36.53</u>	<u>\$19.39</u>

At December 31, 1973 there were 216,607 shares of common stock reserved for future grants.

Certain of the above qualified options for common stock, if not exercised prior to expiration date, convert into non-qualified stock options or into stock unit awards. Stock units awarded under the non-qualified plan entitle the grantee, subject to the provisions of the plan, to a cash distribution rather than common stock of the Corporation. To the extent that a grantee elects to exercise a non-qualified stock option, his right to stock units is extinguished and vice versa. Also, the non-qualified options and stock units will be proportionately reduced in the event the grantee exercises qualified stock options. Of the 508,285 shares under option at December 31, 1973, 290,800 shares have the aforementioned features.

Under the Employee Stock Purchase Plan, 1,436,764 shares of common stock are available for future issu-

ance to eligible employees. At December 31, 1973, 323,120 shares of common stock were purchased at \$15.46 per share under an offering made during 1971. During 1973 an offering was made at a purchase price of 85% of the mean market price of the stock on December 31, 1975 but not exceeding \$24.18. Subscriptions for 380,000 shares were received.

At December 31, 1973 a wholly-owned subsidiary had outstanding \$3,438,000 principal amount of bonds due in 1986, which are convertible prior to maturity into common stock of the Corporation at \$16 per share. In addition, at December 31, 1973 that subsidiary had outstanding \$12,000,000 principal amount of bonds due in 1978 which were issued with warrants entitling the holder of each \$1,000 bond to subscribe to 12 shares of common stock of the Corporation not later than April 30, 1978 at an aggregate price of \$258.

### Note 12 Earnings Per Share

Earnings per share are based on the average number of shares of both common and Special Stock, Series A outstanding each year, and the dilutive effect of stock option and stock purchase plans, contingently issuable shares and warrants. The Special Stock, Series A, has been included on a basis equivalent to 2,5306 and 2,4334 common shares of the Corporation for 1973 and 1972, respectively, the applicable conversion rates.

Fully diluted earnings per share reflects, in addition to the primary computation, (a) the conversion of convertible preferred stock and convertible bonds, (b) the elimination of the dividend requirements on such convertible preferred stock and the interest, net of income taxes, applicable to the convertible bonds, and (c) the conversion of Special Stock, Series A at the rates in effect 10 years after each period.

### Note 13 Leased Assets and Lease Commitments

Total rental expense, including short-term leases and contingent rents, for 1973 and 1972 was \$75,821,000 and \$56,984,000, respectively, of which \$8,583,000 and \$5,181,000, respectively, were applicable to financing

leases. Sublease income was not significant.

The minimum rental commitments at December 31, 1973, under all noncancelable leases are approximately:

Year	Type of Property				Total Commitment	Type of Lease	
	Real Property	Terminal Facilities	Vessels	Other		Financing	Operating
1974.....	\$ 5,062,000	\$ 2,590,000	\$ 32,754,000	\$ 4,577,000	\$ 44,983,000	\$ 8,552,000	\$ 36,431,000
1975.....	4,614,000	2,449,000	27,935,000	3,446,000	38,444,000	7,964,000	30,480,000
1976.....	4,245,000	1,821,000	25,944,000	2,323,000	34,333,000	7,579,000	26,754,000
1977.....	4,162,000	1,543,000	23,197,000	1,771,000	30,673,000	7,158,000	23,515,000
1978.....	3,854,000	1,110,000	17,853,000	1,082,000	23,899,000	6,605,000	17,294,000
1979-83.....	16,372,000	3,446,000	43,882,000	2,669,000	66,369,000	27,432,000	38,937,000
1984-88.....	12,097,000	1,429,000	30,173,000	2,293,000	45,992,000	21,549,000	24,443,000
1989-93.....	9,141,000	1,138,000	20,562,000	573,000	31,414,000	18,794,000	12,620,000
Thereafter.....	6,923,000	1,556,000	12,929,000	—	21,408,000	15,652,000	5,756,000
	<u>\$ 66,470,000</u>	<u>\$ 17,082,000</u>	<u>\$235,229,000</u>	<u>\$ 18,734,000</u>	<u>\$337,515,000</u>	<u>\$121,285,000</u>	<u>\$216,230,000</u>

The present values of the noncapitalized finance lease commitments at December 31, 1973 and 1972 are as follows:

	Weighted Average Interest Rate	Range of Interest Rates Used in Present Value Computation	Present Values of Minimum Rental Commitment	
			1973	1972
Real Property .....	5½%	4%-10%	\$ 9,852,000	\$ 8,649,000
Terminal Facilities.....	9%	9%	2,255,000	1,241,000
Vessels .....	8½%	7½%-11½%	42,291,000	—
Other .....	8%	4½%-10%	9,926,000	9,294,000
			<u>\$64,324,000</u>	<u>\$19,184,000</u>

The capitalization of finance leases during 1973 and 1972 would not have significantly influenced income.

### Note 14 Contingencies and Commitments

At December 31, 1973 major commitments by certain subsidiaries consisted of approximately \$756,000,000 for the purchase of vessels under construction or in operation; approximately \$10,000,000 for the purchase of terminals and revenue equipment for the trucking companies; and approximately \$35,000,000 for the construction of new utility plant. Mortgage financing of \$167,000,000 has been arranged with respect to a portion of these commitments.

Included in the commitment for construction of vessels is approximately \$68,000,000 applicable to partnerships which the subsidiaries have joined with other shipowners. In addition, the subsidiaries are contingently liable to the extent of approximately \$97,000,000 representing the other partners' interests in the construction contracts for these vessels.

The Corporation has agreed to acquire all of the capital stock of Airborne Freight Corporation (Airborne), an international air freight forwarder, in exchange for approximately 1,700,000 shares of common stock of the Corporation. For the years ended December 31,

1973 and 1972, Airborne operating revenues were \$98,041,000 and \$88,432,000, respectively, and net income was \$2,176,000 and \$1,454,000, respectively. The acquisition is subject to approval by various regulatory agencies. Airborne shareholders approved the acquisition on August 28, 1973. The completion of the transaction, which will be accounted for on a pooling-of-interests basis, would have the effect of reducing primary and fully diluted earnings per share from income before extraordinary item by 4 cents in 1973 and 5 cents in 1972. Primary and fully diluted earnings per share from extraordinary item would be unchanged.

The By-laws of the Corporation provide for the indemnification of its directors, officers, employees or agents against liability and expenses with respect to their conduct in such capacities and when serving in similar capacities for other corporations at the request of the Corporation. In the opinion of the Corporation's counsel there is no reasonable probability at present of any substantial liabilities arising as a result of this By-law provision.

The Board of Directors and Shareholders  
 IU International Corporation  
 Wilmington, Delaware

We have examined the consolidated balance sheets of IU International Corporation (a Maryland corporation) and subsidiaries as of December 31, 1973 and 1972 and the related consolidated statements of income, additional paid-in capital, retained earnings, and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of certain consolidated subsidiaries, which statements reflect total assets constituting 4.9% and 5.0%, and sales and revenues constituting 5.1% and 6.9%, respectively, of the related consolidated totals for the years ended December 31, 1973 and 1972. These statements were examined by other auditors whose re-

ports thereon have been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for such companies, is based solely upon the reports of the other auditors.

In our opinion, based upon our examination and the reports of other auditors, the aforementioned consolidated financial statements present fairly the financial position of IU International Corporation and subsidiaries at December 31, 1973 and 1972, and the results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles which, except for the change, with which we concur, in the method of determining income before extraordinary items as required by Accounting Principles Board Opinion No. 30 and as described in note 3 to the financial statements, have been applied on a consistent basis.

*Peat, Marwick, Mitchell & Co.*

February 28, 1974

## 10-Year Financial Comparisons

Adjusted for poolings of interest. (In thousands, except per share data)

SALES AND REVENUES:	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
Major markets:										
Energy	\$ 435,320	\$ 356,315	\$ 319,183	\$ 271,126	\$ 219,179	\$ 209,841	\$ 205,065	\$ 187,374	\$ 156,189	\$ 90,870
Transportation/Distribution	733,967	584,865	521,063	473,734	438,530	407,701	369,260	372,183	313,560	196,234
Environmental	301,422	230,814	200,613	181,761	150,307	41,772	36,199	33,354	30,269	24,723
Total major markets	1,470,709	1,171,994	1,040,859	926,621	808,016	659,314	610,524	592,911	500,018	311,827
Other	77,850	62,136	60,950	59,783	96,949	98,012	75,564	59,843	41,328	20,185
<b>Total sales and revenues</b>	<b>\$1,548,559</b>	<b>\$1,234,130</b>	<b>\$1,101,809</b>	<b>\$ 986,404</b>	<b>\$ 904,965</b>	<b>\$ 757,326</b>	<b>\$686,088</b>	<b>\$652,754</b>	<b>\$541,346</b>	<b>\$332,012</b>
<b>Income from operations (3)</b>	<b>\$ 73,857</b>	<b>\$ 59,992</b>	<b>\$ 51,094</b>	<b>\$ 36,641</b>	<b>\$ 27,276</b>	<b>\$ 27,115</b>	<b>\$ 29,233</b>	<b>\$ 27,086</b>	<b>\$ 22,467</b>	<b>\$ 18,571</b>
<b>Earnings per share—operations (1) (3)</b>	<b>\$ 2.31</b>	<b>\$ 1.88</b>	<b>\$ 1.64</b>	<b>\$ 1.18</b>	<b>\$ .92</b>	<b>\$ .97</b>	<b>\$ 1.06</b>	<b>\$ .97</b>	<b>\$ .80</b>	<b>\$ .68</b>
Shareholders' equity per share	\$ 14.38	\$ 13.07	\$ 11.93	\$ 10.83	\$ 10.28	\$ 9.01	\$ 7.68	\$ 6.54	\$ 5.61	\$ 4.98
Average common and common equivalent shares (1) (2)	31,186	30,646	29,404	28,636	26,313	24,397	23,350	23,766	23,953	21,315
Dividends paid per common share	\$ .75	\$ .725	\$ .70	\$ .67	\$ .65	\$ .60	\$ .56	\$ .51	\$ .46	\$ .42
Total assets	\$1,665,100	\$1,549,055	\$1,424,819	\$1,337,146	\$1,280,914	\$1,018,880	\$891,268	\$794,566	\$704,483	\$531,610

(1) 1971 and prior years adjusted for subsequent stock split. See note 12 to the financial statements.

(2) 1966 and prior years adjusted for subsequent stock dividends.

(3) Before extraordinary credits of \$684, or \$.02 per share in 1972, \$.79, with no per share effect in 1970, \$.53, with no per share effect in 1965 and before gains on dispositions of properties and investments of \$338, or \$.01 per share in 1970, \$10,891 or \$.37 per share in 1969, \$12,113 or \$.44 per share in 1968, \$7,554 or \$.28 per share in 1967, \$10,188 or \$.36 per share in 1966, \$2,842 or \$.10 per share in 1965, \$2,930 or \$.11 per share in 1964. Net income after extraordinary credits and after gains on dispositions of properties and investments was \$73,857 or \$.23 per share in 1973, \$60,676 or \$.19 per share in 1972, \$51,094 or \$.16 per share in 1971, \$37,058 or \$.19 per share in 1970, \$38,167 or \$.12 per share in 1969, \$39,228 or \$.14 per share in 1968, \$36,787 or \$.13 per share in 1967, \$37,274 or \$.13 per share in 1966, \$25,362 or \$.90 per share in 1965, and \$21,501 or \$.79 per share in 1964.

## Directors

Robert C. Heim,† New York, New York  
*Chairman of Schroder Capital Corporation*

John T. Jackson,\* Haverford, Pennsylvania  
*Chairman of the Executive Committee of IU*

H. Irgens Larsen,\* Armonk, New York  
*Vice Chairman of IU*

Willis S. McLeese,† Toronto, Ontario  
*President of Trans Canada Freezers, Limited*

J. G. Rubenstein, Gladwyne, Pennsylvania  
*President of IU*

John M. Seabrook,\* Salem, New Jersey  
*Chairman of IU*

Ira T. Wender, Esq.,\*†, New York, New York  
*Director of Warburg-Paribas, Inc.*

The Earl of Westmorland,† K.C.V.O., London, England  
*Deputy Chairman of Sotheby & Company*

Dennis K. Yorath,\* Edmonton, Alberta  
*Vice Chairman of IU*

\*Member of the Executive Committee of the Board of Directors

†Member of the Audit Committee of the Board of Directors

## Senior Officers

John M. Seabrook, *Chairman and Chief Executive Officer*

J. G. Rubenstein, *President*

H. Irgens Larsen, *Vice Chairman*

Dennis K. Yorath, *Vice Chairman*

John T. Jackson, *Chairman of the Executive Committee*

## Operating Executives

*Distribution Services*

Ivan L. Bielenberg, *Group Vice President*

*Development*

Robert F. Calman, *Group Vice President*

*Transportation Services*

John G. Christy, *Group Vice President*

*Energy Systems*

Anthony A. Goodchild, *Group Vice President*

*Gas, Electric and Water Services*

John E. Maybin, *Group Vice President*

*Waste Management Services*

Robert W. Wolcott, Jr., *Group Vice President*

*Ocean Shipping*

Louis V. Krall, *President*

The Gotaas-Larsen Companies

## Staff Executives

James J. Burke, *Senior Vice President – Finance*

Arthur G. Williams, *Senior Vice President*

Daniel J. Brennan, *Vice President – Taxes and Insurance*

Norman Gross, *Vice President – Planning*

David W. Hughes, III, *Vice President – Management Resources*

Peter Keber, *Vice President, Secretary and Senior Counsel*

Arlen D. Southern, *Vice President – Corporate Affairs*

Anson W. H. Taylor, Jr., *Vice President and General Counsel*

Kenneth A. B. Trippe, *Vice President and Treasurer*

John B. Turbidy, *Vice President – Corporate Development*

Richard J. Censits, *Controller*

John B. Bartlett, *Assistant Secretary*

H. Beatty Chadwick, *Assistant Secretary*

William F. Egan, *Assistant Secretary*

Laurent J. Remillard, *Assistant Treasurer*

Brian Stevenson, *Assistant Treasurer*

## Transfer Agents

Morgan Guaranty Trust Co. in New York,  
Bank of America, N. T. & S. A. in San  
Francisco, and Montreal Trust Co. in  
Montreal, Toronto, Calgary, Vancouver  
and Regina.

## Registrars

Chemical Bank in New York, Wells Fargo  
Bank N.A. in San Francisco, Crown Trust Co.  
in Montreal, Toronto, Calgary and Vancouver,  
and the Royal Trust Co. in Regina.

## Stock Exchanges

IU's capital stock is traded on the following  
exchanges: New York, PBW, Pacific, Midwest,  
Toronto, Montreal, Vancouver, London,  
Amsterdam, Oslo and Tokyo.

## Markets and Operating Units

IU is a services-oriented operating company which emphasizes asset management, long-range planning and strong financial controls. The company's decentralized operating units in 24 countries, 44 U.S. states, and seven Canadian provinces provide services to worldwide energy, transportation/distribution, and environmental markets.

### Energy Markets (65% of income and 30% of revenues)

- *Ocean Shipping*—Gotaas-Larsen, one of the world's largest independent shipping companies, transports energy in the form of oil and coal. It owns and/or operates a fleet of 56 ships totalling 4.3 million deadweight tons, including oil tankers, product carriers, bulk carriers, and refrigerated ships, and has ordered six liquefied natural gas (LNG) carriers and four semi-submersible drilling rigs for North Sea oil exploration.
- *Electric and Gas Services*—Canadian Utilities Limited\* supplies natural gas to 253 communities and electricity to 364 communities in Alberta, Yukon, and Northwest Territories.
- *Energy Systems*—IU companies manufacture valves, piping, flow control systems and related components for the power, petroleum, chemical, and gas processing industries.

### Transportation/Distribution Markets (18% of income and 50% of revenues)

- *Transportation Services*—Pacific Intermountain Express and Ryder Truck Lines comprise one of the largest trucking networks in the U.S. with 15,131 pieces of equipment providing service through 256 terminals to virtually every major U.S. market.
- *Distribution Services*—IU companies distribute paper and institutional food products in the southeastern U.S.; distribute supplies and materials to industrial firms and to plumbing, heating and electric contractors; and distribute dental supplies and laboratory equipment throughout the U.S.

### Environmental Markets (17% of income and 20% of revenues)

- *Waste Management Services*—IU companies process and reclaim slag and scrap for steel mills in seven countries; quarry and process lime and related materials for pollution control applications; and market a process which converts pollutants from smokestack emissions at electric utility plants into stable construction materials.
- *Water Management Services*—General Waterworks Corp.\*, provides fresh water to more than 322,000 customers in 16 states and one Canadian province.
- *Land Management and Tourism*—C. Brewer and Co., Ltd.\*, a 54%-owned affiliate, controls 265,000 acres in Hawaii, where its environmental activities strike an ecological balance\* between agriculture (sugar, molasses, macadamia nuts) and land development and resort operations. Brewer is also a leader in agri-business engineering and management. Gotaas-Larsen owns, wholly or in part, six cruise ships, five of which are in the Caribbean market.

\*These subsidiaries have publicly traded securities outstanding.

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For a copy of IU's Facts and  
Figures Manual, write IU Corporate  
Affairs Department at the  
Philadelphia address.





Our corporate  
objective is to provide  
shareholders  
with above-average  
earnings growth  
by operating  
a limited number  
of complementary  
businesses  
balanced to produce  
maximum return  
with reasonable risk.